Remarks of
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Good morning. It is a pleasure to be with you here today, and to have the opportunity to talk to you about Federal health care reform legislation.

Before I came to Congress in 1975, I served for 6 years on California's Assembly Health Committee. As challenging as the health care crisis was then, it pales in comparison with what you face today. Twenty years ago, we were not confronting dramatic health care price inflation, an AIDS epidemic, a drug epidemic, a proliferation of new technologies, and an increase in the number of frail elderly.

The issues are more complicated, and the stakes are higher. As legislative leaders, you definitely have your work cut out for you.

<u>The System is Broken</u>

There is great discontent about America's health care system --

and for good reason.

Clearly, the system is not working for a lot of people.

It's not working for workers and their families, who are trading wage increases for health benefits -- benefits made more and more costly by uncontrolled medical price inflation and by growing numbers of uninsured people.

It's not working for small businesses, who are watching the small group health insurance market collapse around them. Rather than spreading risk, insurers are doing all they can to avoid it through medical underwriting, preexisting condition exclusions, and benefit limitations.

It's not working for big businesses, who are facing dramatic premium increases that put them at a competitive disadvantage in the global marketplace.

It's not working for the 36 million Americans -- two thirds of whom are workers or their dependents -- who have no insurance coverage, public or private.

And -- as this audience well knows -- it's not working for the States, many of whom are struggling with increasing numbers of uninsured, spiralling medical care prices, and rising Medicaid spending.

The System won't Fix Itself

We've spent the past twelve years waiting for the invisible hand of the marketplace to solve these problems by itself. You know as well as I do that it hasn't.

It's obvious to me that if we continue to do nothing, then things will just get worse. There will be

-- continued high inflation in the price of medical care,

-- more and more uninsured Americans,

-- higher and higher premium costs for small and large employers,

-- more and more out-of-pocket costs for workers and their families,

-- larger and larger burdens on the elderly and the Medicare program,

-- greater and greater pressure on Federal and State Medicaid budgets,

-- and, if the Bush Administration has its way, more shifting of costs from the Federal government to States and localities.

The Bush Proposal

The Bush Administration finally seems to recognize that the health care crisis in this country is serious.

After three years in office, it has come out with a proposal for what the President thinks of as "comprehensive reform."

He's way off the mark.

The American people want four things from health care reform:

-- protection against the high costs of care,

-- guaranteed coverage for basic services,

-- choice of their own doctor,

-- and a way to pay for it that is fair, doesn't hurt American competitiveness, and does not take benefits away from the elderly and the poor.

The Bush 'plan' flunks each of these tests. It's not reform. In fact, I think its main goal is to provide political cover for a thinly-veiled attempt to cut Federal spending on the elderly and the poor.

Last week, Robert Reischauer, the Director of the Congressional Budget Office, testified before the Congress on the President's proposals. He concluded that, and I quote, these proposals "are unlikely to slow the rate of growth of health spending." In fact, Mr. Reischauer said, "a few of the cost control stategies put forth could

actually raise costs."

In other words, the President's proposal does nothing to control rising health care costs. It won't help large employers become more competitive in the global marketplace. It won't make health insurance cheaper for small employers. It won't protect workers and their families from high out-of-pocket costs. In fact, it could well make matters worse.

The President's proposal also won't do much to help 36 million uninsured Americans get basic health care coverage. The President is offering refundable tax credits of up to $1,250 for an individual and up to $3,750 for a family of 3 or more, available to families with low incomes.

However, as CBO points out, a substantial number of people would not elect to use the tax credits to purchase insurance, because the amount of the credit is much lower than the amounts they would need to buy typical plans available in today's market. This would leave families, even after the credit, with thousands of dollars in annual premiums and out-of-pocket costs.

Then there is the question of how the President is going to pay for these tax credits. His proposal is silent on financing, with one glaring exception. The President is quite clear that he wants to reduce Federal Medicaid matching payments to the States.

Specifically, what the Administration suggests is to replace the current Federal matching dollars with a prospective per capita

payment, based on each State's Medicaid spending for acute care in 1992. This would lock in existing variations among the States in Medicaid reimbursement rates and benefits covered. States with relatively low Federal Medicaid budgets would never be able to increase their call on Federal resources.

Equity among States is just one of the problems raised by the President's proposal. Even more troublesome is what will happen over time.

Under the proposal, the Federal per capita payments would not be allowed to increase from year to year more than a certain percentage, or index. The problem is that this index is designed to protect the Federal treasury at the expense of the States. The index would not grow as fast as the actual spending per Medicaid beneficiary is expected to rise.

Of course, a State would try to limit the increases in its Medicaid program through aggressive cost containment. But CBO doesn't think these cost control efforts would be sufficient to reduce the rate of growth in per capita spending to the rate of growth in the Federal payment. States would have to make up the difference from their own funds.

Because the President is deliberately vague on this point, I can't give you any estimates as to how much this is likely to cost the States over time. My own guess is that, once such a cap is in place, there will be continuous pressure at the Federal level to ratchet down the index. The cost shift could easily amount to billions of dollars each

year.

House Proposals

Fortunately, there are alternatives to the President's proposal for dumping Federal health care responsibilities on the States.

In the House, a variety of bills have been introduced, including proposals for a single payer program, and bills -- like my own and Chairman Rostenkowski's -- that use an employer choice model supplemented by a strong public plan.

The Waxman Proposal

I'm sure you're familiar with the proposal I've introduced. It's based on the recommendations of the Pepper Commission that was chaired by Senator Jay Rockefeller.

Basically, it's an employer choice bill.

Employers would be required to offer coverage to workers and their families, but they would have a choice in how they did so. They could either purchase private policies, administer their own plans, or enroll their employees in a new Medicare-like public program.

For people who are outside the workforce, the bill would provide coverage through the new public program -- a program which would be completely independent of Medicaid and the welfare system.

The elderly would continue to receive coverage through Medicare.

The poor would receive coverage for basic health services under either the new public health insurance plan or through their employers. Medicaid benefits like presciption drugs that are not included in the basic services package would continue to be offered through the current Medicaid program under existing rules. Current State spending for Medicaid coverage for hospital, physician, lab, and other basic health services would be phased out, with the Federal government assuming the entire cost.

Single Payor and Compromise

There are other strong approaches to health care reform. Chairman Dingell has introduced a single payor plan financed by a value added tax, or VAT. Mr. Russo has introduced a Canadian-style single payor bill that has a large number of cosponsors in the House.

My view has always been that, while employer choice and single payor plans are different, they share the common objectives of universal coverage and cost containment.

We just can't allow the differences between these approaches to block achievement of health reform.

It is clear to me that either of these approaches is clearly superior to the status quo.

During the last few weeks I have been exploring with Chairman

Dingell a health reform proposal that the Energy and Commerce Committee could report. We have agreed to work together to develop a plan with universal coverage and strong cost controls.

I can't give you any details on this yet, but I can assure you that there will be an administrative and operational role for those States that elect to run their own programs.

Chairman Dingell and I also recognize that the Federal government cannot continue to expect States to finance acute care for the poor and long-term care for the low-income elderly and specialized services for the disabled.

The current Medicaid program has to be restructured -- in my view, by Federalizing the acute care portion of the program. This will free up resources to enable States to improve their long-term care services and to shore up public health programs that have not been adequately funded.

Stand-Alone Small Business Reform

Let me tell you what I don't support. I'm very disturbed by the decision of the Finance Committee to include small business insurance regulation in the tax bill that is now being taken up on the Senate floor.

As I mentioned earlier, the small group market is collapsing in a frenzy of medical underwriting and experience rating. But it can't be fixed without addressing other problems in the system -- especially health care costs.

The Finance Committee proposal will not contain the price of health care services, which is driving up small group insurance premiums. By ignoring health care costs, the proposal could actually make lots of people who now work for small employers much worse off, because it could well result in hefty increases in premiums for many relatively healthy groups.

The Finance Committee proposal will not bring real help to most of the uninsured, since it does not provide resources to help them afford basic coverage. Incredibly, it does manage to provide Federal grants that can be used for sales commissions to insurance agents.

The Finance Committee proposal attempts to set minimum Federal standards for small group insurance products. There's no doubt that minimum Federal standards are needed. The problem is that the Committee's standards fall well short of what I -- and the

Pepper Commission -- thought was a reasonable set of protections for consumers. I'm especially concerned that the standards for benefits would allow clearly inferior products to remain on the market -- but now with a Federal "Good Housekeeping" seal of approval.

And worst of all, I fear that enactment of this proposal -- which is designed to phase in over the next 6 years -- will be used by opponents of comprehensive reform as a excuse for inaction. We simply can't wait until 1998 to enact legislation that actually controls health care costs and provides universal coverage.

States Going It Alone

Let me now speak to those of you from States that are developing plans to provide universal coverage to your own citizens.

I can certainly understand your frustration with the Federal government for its inaction on health care reform. Believe me, I share that frustration. Unfortunately, as long as George Bush remains President, we will probably have to live with it.

So I strongly support the efforts of those States that are trying to make an adequate basic benefits package available to all citizens -- without cutting back on medically necessary care for low-income women and children who are now eligible for Medicaid.

But I have to warn you that, in your efforts to establish the States as laboratories, you should not make the mistake of agreeing to limits on the Federal financial responsibility in exchange for greater flexibility.

There are a number of people at OMB and elsewhere who would dearly love to cap Federal Medicaid expenditures, and to limit the Federal government's financial responsibility for health care to the poor, the elderly, and the rest of the population. They'll be happy to give you all the flexibility you want, so long as they don't have to help you pay for it.

That's a bad deal for you and your citizens. You know as well as anyone that, over time, your revenue growth will always fall below the rate of growth in health care spending -- even with aggressive cost containment in place. If you're going to sustain an adequate program over time, the Federal government will have to have a major financing role.

Conclusion

Chairman Dingell and I are committed to finding a majority on the Energy and Commerce Committee for health care reform this spring. I know that Chairman Rostenkowski intends to report out legislation as well. And I know that the House Leadership wants very much to bring a bill to the floor and send it to the President this year.

I hope that we can look to you for input and support as we move forward in this process.

Entitlement Growth Cap

I want to take a minute to tell you about a truly bad idea -- the Bush Administration's proposal to place annual caps on total entitlement spending at the Federal level. If this proposal is enacted, it will mean a massive shift in health care costs from the Federal government to the States -- without any accompanying resources.

Here's how it would work. The cap would be set each year at a level equal to actual entitlement spending for the previous year, adjusted for increases in the eligible population and for the increase in the consumer price index plus 2.5 percent. If spending exceeded the cap in any year, then Congress would have to cut entitlements to offset the excess spending. If Congress didn't act, then an across-the-board cut in entitlements would occur. The only programs exempt from cuts would be Social Security and unemployment insurance.

If Congress were to enact this cap tomorrow, what would happen? Starting October 1, there would be major cuts in Medicare, Medicaid, AFDC, SSI, Food Stampes, and child nutrition programs.....

You would be left to pick up the pieces. Take shots at Colorado, Oregon, Darman's entitlement growth cap (Grenstein analysis), managed care, States off by themselves, VAT tax state sales tax crowd out.